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UNCLAS TEGUCIGALPA 002182

SIPDIS

STATE FOR WHA/CEN, WHA/EPSC, EB/IFD

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TAGS: [EFIN](#) [KTIA](#) [ECON](#) [HO](#)

SUBJECT: HONDURAS: \$125 MILLION DEBT TO U.S. CANCELLED

REF: Tegucigalpa 174978

1. SUMMARY: On October 7, the U.S. and Honduras signed a debt reduction agreement cancelling 100 percent (\$125m) in loans owed to USG organizations as of March 1, 2005. This effectively eliminated the U.S. share of \$1.47 billion owed by the GOH to the Paris Club. Similar bi-lateral agreements need to be negotiated by the GOH with the other Paris Club members. Debt forgiveness agreement discussions are on-going with the World Bank, IMF, and the International Development Bank (IDB). END OF SUMMARY.

2. Per reftel, Honduras and the U.S. signed a debt reduction agreement on October 7 that cancels approximately \$125 million in debt owed by Honduras to four USG organizations (USDA, EXIM, DOD, and USAID). Honduran Finance Minister William Chong Wong and Charge were the official signatories, while President Ricardo Maduro and Central Bank President Maria Elena Mondragon signed as witnesses of honor.

3. The deal absolves all debt owed before March 1, 2005, to the following U.S. institutions: Department of Defense (\$48.0 million), USAID (\$65.7 million), Department of Agriculture (\$9.7 million), and the Export - Import Bank (\$1.2 million). This represents the fifth time the USG has forgiven debt owed by Honduras, totaling \$689 million since 1991. Private debt owed to non-public interests in the U.S. was unaffected.

4. The debt forgiveness was based on a recommendation from the Paris Club, an informal group of industrialized countries with extensive loans to third world countries. The Club members (Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland and the U.S.) jointly agreed on May 1, 2005 to reduce the debt once Honduras had reached a significant milestone (Completion Point) in the World Bank and IMF sponsored Highly Indebted Poor Countries (HIPC) Initiative. The milestone demonstrated that Honduras had achieved strong structural reforms and had a strategy to use these reforms to generate economic growth and reduce poverty. As of March 1, 2005, \$1.47 billion was owed to Paris Club members by Honduras. The U.S. accord is the third bilateral debt forgiveness agreement concluded under this Paris Club agreement; accords with Spain (USD \$138 million) and Canada (USD \$9.5 million) were signed in April of this year. Like the U.S. accord, a bi-lateral deal must be negotiated with each remaining Club member to cancel their respective debts.

5. Achieving the HIPC Completion Point has also allowed Honduras to move forward on negotiating debt forgiveness on debts owed to the World Bank, the International Monetary Fund (IMF), and the International Development Bank (IDB). The World Bank cancelled \$67 million in commercial debt owed to its International Development Association (IDA) group in May, and will consider reducing or cancelling all of IDA's credits to Honduras, approximately \$1.2 billion, in 2006. The IMF has committed to eliminating USD \$30.3 million of Honduran debt, leaving approximately \$110 million for future negotiation. Finally, the International Development Bank cancelled \$192 million in loans in April, but discussions continue on whether action can be taken on the balance of \$1.2 billion. Publicly and privately the GOH has called for such forgiveness or rescheduling, and has been quick to point out that the African Development Bank, IDB's equivalent in Africa, has rescheduled or cancelled debt owed by African countries that have reached the HIPC Completion Point.

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